Write your **student number** in the boxes above. **Letter**

# Economics

## Question and Answer Book

### VCE Examination – Thursday 31 October 2024

- Reading time is **15 minutes**: 11.45 am to 12 noon
- Writing time is **2 hours**: 12 noon to 2.00 pm

**Approved materials**

- One scientific calculator

**Materials supplied**

- Question and Answer Book of 28 pages
- Multiple-Choice Answer Sheet

**Instructions**

- Follow the instructions on your Multiple-Choice Answer Sheet.
- At the end of the examination, place your Multiple-Choice Answer Sheet inside the front cover of this book.
- Use the additional space at the end of this book if you need extra space to complete an answer.

Students are **not** permitted to bring mobile phones and/or any unauthorised electronic devices into the examination room.

**Contents** pages

VICTORIAN CURRICULUM AND ASSESSMENT AUTHORITY

VICTORIA State Government

## Section A – Multiple-choice questions

### Instructions

- Answer **all** questions in pencil on your Multiple-Choice Answer Sheet.
- Choose the response that is **correct** or that **best answers** the question.
- A correct answer scores 1; an incorrect answer scores 0.
- Marks will **not** be deducted for incorrect answers.
- No marks will be given if more than one answer is completed for any question.

### Question 1

Toni is a wheat farmer. The sunlight and rainfall that help the wheat crops to grow are an example of

**A.**  a public good.

**B.**  a free good.

**C.**  a public externality from consumption.

**D.**  a private benefit from consumption.

### Question 2

Consider the following Production Possibility Frontier (PPF) for a hypothetical economy.

**PPF for an economy**
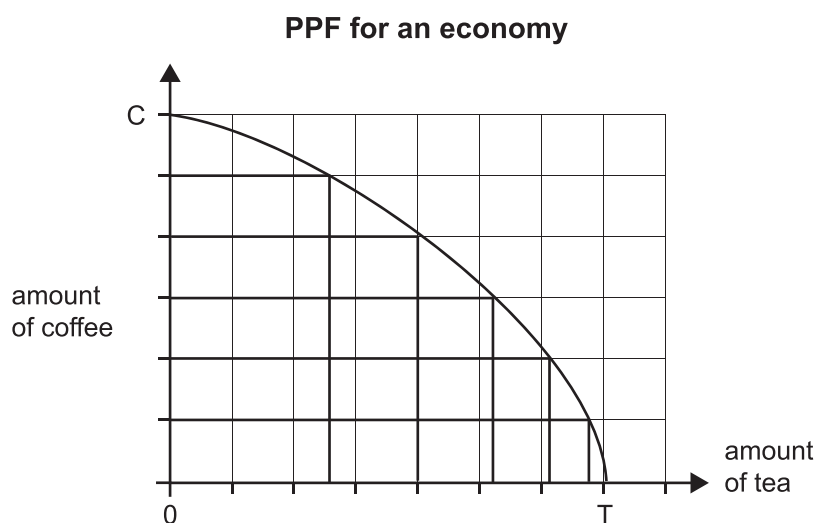


As the production of coffee increases in equal amounts, the opportunity cost in terms of tea

**A.**  increases.

**B.**  decreases.

**C.**  decreases then increases.

**D.**  stays the same.

**Question 3**

Which of the following events would be most likely to shift the demand curve for a good or service to the right?

A.   a decrease in the price of the good or service

B.   a decrease in levels of direct taxation

C.   a decrease in the price of a substitute good or service

D.   a decrease in the costs of production

**Question 4**

Which of the following is most likely to result in an increase in aggregate demand in the economy?

A.   a decrease in labour market productivity

B.   an increase in consumer confidence

C.   an increase in the cash rate

D.   a decrease in business confidence

**Question 5**

|  | **2020** | **2024** |
|---|---|---|
| price of milk (per litre) | $2 | $2 |
| price of coffee (per cup) | $4 | $6 |

In the example provided in the table above, the relative price of milk between 2020 and 2024

A.   cannot be determined.

B.   remained unchanged.

C.   increased.

D.   decreased.

**Question 6**

Which of the following factors are both characteristics of an expansion or upward swing in the business cycle?

A.   a decrease in production and an increase in capital investment

B.   an increase in wages and rising business profits

C.   an increase in unemployment and reduced transfer payments

D.   an increase in consumer spending and decreased business confidence

**Question 7**

Consider the following data showing the Consumer Price Index (CPI) for a number of quarters in a hypothetical economy.

| Date | Quarterly CPI (index June 2012 = 100) |
|------|---------------------------------------|
| Jun 2021 | 119.5 |
| Sep 2021 | 119.7 |
| Dec 2021 | 121.3 |
| Mar 2022 | 123.9 |
| Jun 2022 | 126.1 |
| Sep 2022 | 128.4 |
| Dec 2022 | 130.8 |
| Mar 2023 | 132.6 |
| Jun 2023 | 133.7 |

The inflation rate for the year ended June 2023 was

A.   6.03%

B.   5.52%

C.   6.94%

D.   7.60%

**Question 8**

Consider a market where the demand for a good is relatively inelastic. If supply was to decrease in the market, it is most likely that the price will

A.   decrease, and quantity demanded will decrease by a relatively smaller amount.

B.   increase, and quantity demanded will decrease by a relatively smaller amount.

C.   increase, and quantity demanded will decrease by a relatively larger amount.

D.   decrease, and quantity demanded will fall by a relatively larger amount.

**Question 9**

The diagram below shows the market for rice.

**Market for rice**
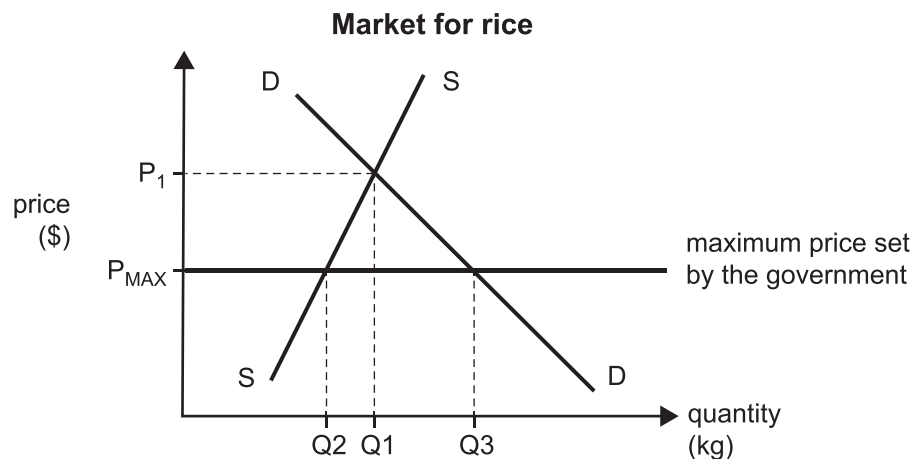


The governments in some developing countries try to protect the low-income populations by setting maximum (ceiling) prices on some foods to make them more affordable. In the diagram above, if the government intervened and set the maximum price for rice at $P_{MAX}$, the effect of this would be to

A.   decrease the rice available from Q3 to Q1.

B.   increase the rice available from Q2 to Q3.

C.   increase the rice available from Q1 to Q3.

D.   decrease the rice available from Q1 to Q2.

**Question 10**

Which of the following is **unlikely** to increase cost inflation in the short term?

A.   an increase in the price of oil

B.   an increase in electricity prices

C.   an increase in the value of transfer payments

D.   an increase in tolls for major highways

Do not write in this area.

**Question 11**

Consider the following data for a hypothetical economy.

| employed persons | 14,257,000 |
|---|---|
| unemployed persons | 595,000 |
| labour force participation rate | 67% |
| youth unemployment rate | 9% |
| youth employed (aged 15–24) | 2,197,000 |

Using the data, the unemployment rate for the hypothetical economy is:

A.  4.0%

B.  5.6%

C.  4.5%

D.  3.6%

**Question 12**

Aggregate supply policies are designed to

A.  maximise production in an economy.

B.  improve supply-side conditions so that domestic macroeconomic goals and enhanced living standards can be more easily achieved.

C.  ensure aggregate supply is always exceeding aggregate demand so that there are no shortfalls of supply in the economy.

D.  ensure that output is boosted in the short run to allow for the achievement of macroeconomic goals.

**Question 13**

Which of the following will **not** cause a slowing of labour productivity in an economy?

A.  decreasing overall business investment

B.  lower barriers to entry for international investors

C.  lower levels of entrepreneurship, slowing allocation of resources to productive areas of the economy

D.  lower investment in education and training

**Question 14**

Consider the following data for an economy over a two-year period. The prices given reflect the average for the relevant year.

| Year | Import price index | Export price index |
|------|--------------------|--------------------|
| 1    | 125                | 100                |
| 2    | 150                | 75                 |

Which of the following shows the value of the terms of trade index in Year 2 and the terms of trade trend from Year 1 to Year 2?

| | Terms of trade index | Terms of trade trend |
|------|----------------------|----------------------|
| **A.** | 200 | increased |
| **B.** | 200 | decreased |
| **C.** | 50 | increased |
| **D.** | 50 | decreased |

**Question 15**

Australia's international competitiveness will most likely improve if

**A.** Australia has a higher inflation rate compared to its trading partners.

**B.** the Australian dollar appreciates relative to our trading partners.

**C.** there is an improvement in labour productivity.

**D.** Australia's wage costs rise faster than productivity.

**End of Section A**

# Section B – Written responses

## Instructions

- Answer **all** questions in the spaces provided.
- Write your responses in English.

**Question 1** (3 marks)

Outline the link between relative scarcity and opportunity cost.
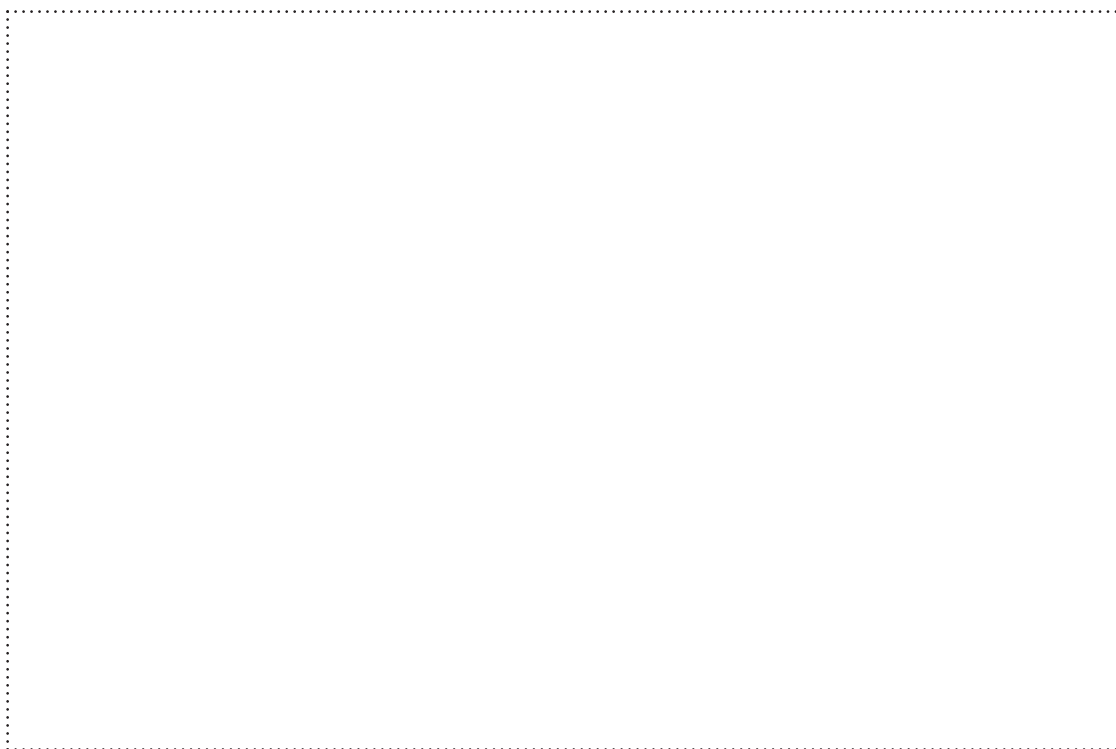
**Question 2** (11 marks)

> 'Australia's net overseas migration (NOM) level, which represents the difference between incoming migrants and outgoing migrants over a 12-month period, is expected to be 400,000 in 2022–23 and 315,000 in 2023–24. In the 2023–24 permanent Migration Program, around 70% of places will be allocated to skilled migrants, addressing persistent skill shortages, and bringing long-term fiscal (budgetary) and economic benefits.
>
> Pre-pandemic net overseas migration was around 235,000 per year.'

Source: Adapted from Nabil Al-Nashar <https://www.abc.net.au/news/2023-04-29/
australian-migrant-population-growth-hits-all-time-record-high/102281798>

a.  Explain, with the use of a fully labelled demand and supply diagram, the likely impact of Australia's net migration in 2023–24 on the Australian labour market.                4 marks

**b.**   As a result of net migration in 2023–24, analyse how the forces of demand and supply
         affect equilibrium price and quantity in Australia's housing market.                      3 marks

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c.   Explain how the focus on skilled migrants is likely to affect Australia's productive
     capacity and the goal of strong and sustainable economic growth and non-material
     living standards.                                                    4 marks

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**Question 3** (8 marks)

**Long-term unemployed**

number of long-term unemployed ('000)

time
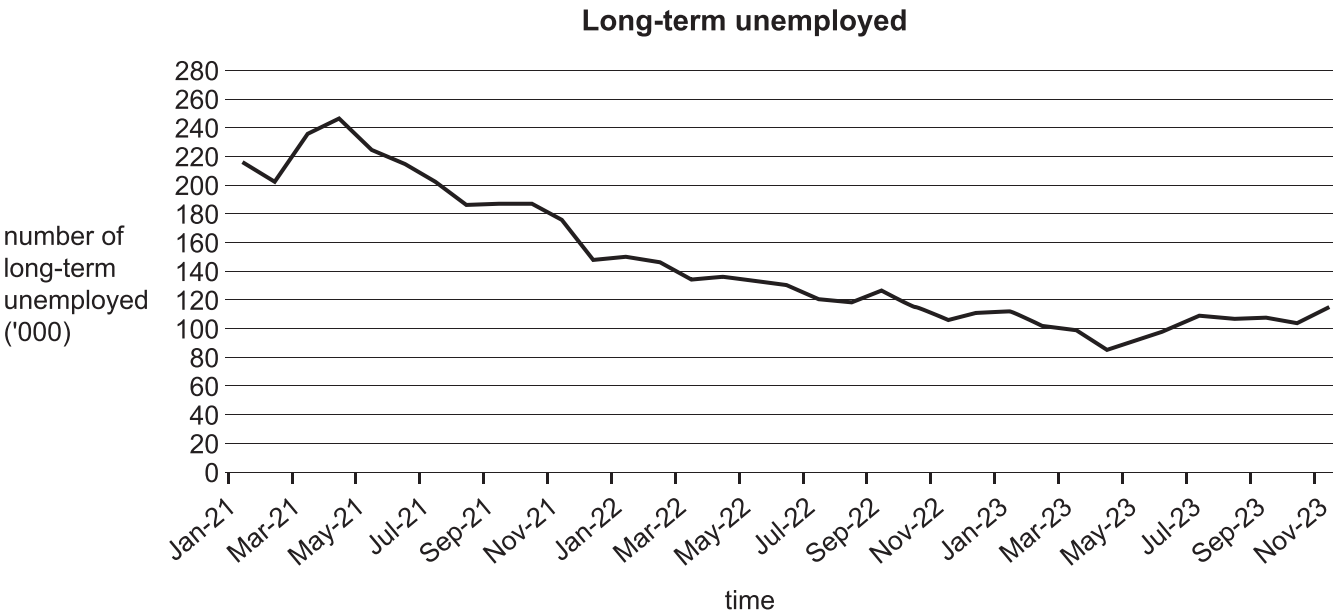
**a.** Referring to the graph above, describe the trend in Australia's long-term unemployed from January 2022. 2 marks

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**b.**   Distinguish between hidden unemployment and long-term unemployment.                3 marks

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**c.**   Explain **one** consequence of not achieving the goal of full employment and its effect
        on material living standards.                                                        3 marks

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**Question 4** (15 marks)

> 'Some may … think that the Reserve Bank Board is prioritising its inflation objective [goal] ahead of its full employment objective [goal]. Although it is true that we are resolute in returning inflation to target, this does not mean that employment has taken a backseat.'

Source: Adapted from Michele Bullock, Deputy Governor of the RBA, 'Achieving full employment speech at the Ai Group'
20 June 2023 <www.rba.gov.au>

**a.** Describe what economists mean by the Non-Accelerating Inflation Rate of Unemployment (NAIRU). 2 marks

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**b.** Explain how **one** aggregate supply factor might have affected the achievement of the goal of low and stable inflation in the past two years. 2 marks

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**c.**   With reference to **one** transmission mechanism, explain how the current monetary
        policy stance is designed to influence aggregate demand and the achievement of the
        goal of low and stable inflation.                                                                  5 marks

**d.** With reference to the quote on page 14, evaluate the extent to which the Australian economy has achieved the domestic macroeconomic goals of low and stable inflation and full employment in the past two years.      6 marks

**Question 5** (10 marks)

**Key figures**

| Quarter | Jun 2023 | Sep 2023 |
|---|---|---|
| Balance on current account[1] ($m) | 7782 | −158 |

Source: Adapted from <www.abs.gov.au>

[1]Seasonally adjusted estimates in current price terms

**a.**   With reference to the table above, explain how **one** structural influence on Australia's current account balance might have contributed to the change in the balance on current account between the June and September quarters in 2023.                    2 marks

**b.**   Outline how foreign investors buying a large cotton farm in Australia would affect **two** components of Australia's balance of payments.                    2 marks

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**c.** Explain how **one** of the following factors might affect the value of the Australian dollar.

- a downgrading of the Australian government's credit rating
- higher interest rates in the United States of America relative to Australia
- a lower relative rate of inflation in Australia compared to our major trading partners     2 marks

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**d.** Discuss the effectiveness of trade liberalisation in achieving the domestic macroeconomic goal of strong and sustainable economic growth.     4 marks

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**Question 6** (18 marks)

a.    Identify the stance of the 2024–25 federal budget and describe **one** reason why the
     government might have adopted this stance given current economic conditions.              3 marks

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**b.**   Explain the effect of **one** automatic stabiliser and **one** discretionary stabiliser on the
Australian Government's budget outcome over the past two years.                          4 marks

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**c.**   Explain **one** way to finance a budget deficit or **one** way to utilise a budget surplus.        2 marks

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**d.** Explain **one** strength of using monetary policy and **one** strength of using budgetary policy to affect aggregate demand and influence the achievement of the goal of strong and sustainable economic growth over the past two years. 4 marks

Monetary policy

Budgetary policy

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**e.**    With reference to a recent example, explain how the government can use **one** of
the following budgetary policies to affect aggregate supply, Australia's international
competitiveness, and the achievement of the goal of full employment.

- training and education
- research and development
- subsidies
- infrastructure
- tax reform                                                                                     5 marks

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**Extra space for responses**

Clearly **number** all responses in this space.

Do not write in this area.

If you use any additional Question and Answer Books to complete your responses, write your **student number** on the front cover. At the end of the examination, place the additional Question and Answer Books inside the front cover of the first Question and Answer Book.

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